

106. COST SAVINGS INCENTIVE FACTOR

For the dual purpose of providing an incentive for cost containment as well as compensation for business risk and a reasonable return on investment, a Cost Savings Incentive Factor (CSI) as determined by the Department shall be applied to prospective current year per diem cost in determination of a final prospective rate for each facility.

COST SAVINGS INCENTIVE. Providers shall be eligible for a Cost Savings Incentive (CSI) Factor if the facility rate is not in excess of 110 percent of the median of the appropriate cost array. CSI payments shall be computed on both the Nursing Services and All Other cost centers. It shall be ten (10) percent of the difference between the facility's per diem cost and the upper limit from the appropriate array. The CSI shall be limited to no more than \$1.50 per diem for each of the two cost categories.

107. UPPER LIMITS

To prevent unlimited cost increases, the Program shall establish upper limits for reimbursement of Nursing Services costs and All Other costs. Upper limits are designed to reflect what is reasonable and adequate to meet the cost which must be incurred by efficiently and economically operated facilities.

For purposes of setting upper limits the NFs shall be divided into urban and rural arrays. The urban array shall include all freestanding facilities (excluding MRS, IMD, and Pediatric) within a Standard Metropolitan Area (SMA). The rural array shall include all freestanding facilities (excluding MRS, IMD, and Pediatric) in non-SMA counties.

- A. NURSING SERVICES COSTS. The upper limit for Nursing Services costs shall be set at 115% of the median of the urban or rural array, as appropriate, of the Nursing Services cost per case mix unit. The cost per case mix unit is derived by dividing the nursing cost per day (trended and indexed for inflation) by the average value of the nursing assessments for the facility.

- B. ALL OTHER COSTS. The upper limit for All Other costs shall be set at 115% of the median of the urban or rural array, as appropriate, of the All Other cost per day (trended and indexed for inflation).
- C. HOSPITAL-BASED NURSING FACILITIES. The upper limits for each cost area for hospital-based nursing facilities shall be set at 125% of the appropriate upper limit for freestanding facilities as defined above. Hospital-based nursing facilities shall be defined as those nursing facilities which are in the same building or are attached to an acute care hospital and share common administration, nursing staff and ancillary services, except that those facilities classified as hospital based skilled nursing facilities on June 30, 1989 shall remain classified as hospital-based nursing facilities.
- D. NEW FACILITIES. New facilities which have an interim rate established subject to cost settlement, shall not be included in the arrays for purposes of determining the upper limits; however, these facilities are subject to the upper limits.

E. COST REPORTS UTILIZED. Upper limits shall be established on the basis of the most current cost data available and desk reviewed as of May 16 of each year. The cost data shall be trended to July 1 of the rate year and indexed for inflation for the rate year. Should unaudited data be utilized, rates shall be adjusted when the report is audited.

If a change of ownership has occurred and a new owner's cost report of at least six months duration is available as of May 16, this data shall be utilized. If this aforementioned six month cost report is not available, then the cost report of the previous owner shall be utilized in accordance with the timeframes set forth in the preceding paragraph.

physician as a medical necessity), Cleansing Agents (Alcohol sponges), Colostomy Supplies, Dressings (telfa, ABD pads, gauze squares, tape, bandages), Food Supplements and supplies related to their administration (Compleat-B, Ensure, Flexical, Isocal, Meritene, Sustacal, Vital, Vivonex), Intravenous Supplies, Levine Tube, Liniments (Ben-Gay, Deep Heat Rub, Icy Hot), Miscellaneous supplies (Disposable Gloves, Q-Tips, Swabs, Isolation gowns), Naso-Gastric tube, Protection Items (Perineal pads) Sanitary/Personal items (sanitary napkins, feminine hygiene deodorant sprays, toothbrushes, toothpaste, razors, all-types of deodorants, mouthwash), Skin Lubricant, Lotions & Creams (Jergens Lotion, Keri-Lotion, Aveeno Lotion, A & D Hand Cream, Corn Starch, Glycerine, Vaseline).

Irrigation supplies and solutions are considered ancillary services if they are legend or non-legend drugs and/or if they are utilized with indwelling urethral catheters.

Hyperalimentation as a drug cost includes the hyperalimentation solution, subclavian catheter (Hickman Catheter, etc.), heparinization solution, tubing filter, sterile tubing, antimicrobial solution, povidone-iodine ointment (or substitute), and cellulose membrane filter. Other items and services are considered ancillary or routine as presently defined.

Reimbursement for ancillary services will be made on the basis of reasonable, allowable direct costs of the services, with two exceptions;

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108. HOLD HARMLESS

In order to assure a smooth transition to the Case Mix Assessment Reimbursement System (CMAR), nursing facilities shall be entitled to a hold harmless amount for the period from October 1, 1990 through June 30, 1992. The hold harmless amount is the amount, if any, by which the July 1, 1990 allowable (subject to audit adjustment) facility rate plus an adjustment for ancillary costs being shifted to routine costs (less a nurse aide training per diem allowance of \$1.20) exceeds the allowable facility rate as computed on October 1, 1990, (subject to audit adjustment) and July 1, 1991, excluding the revised nurse aide training per diem allowance under the CMAR system. For July 1, 1991 rate purposes, the July 1, 1990 rate shall be increased by an inflation allowance using the appropriate Data Resources, Incorporated index for inflation. The Hold Harmless provision is not applicable for dual licensed or swing beds.

109. PROSPECTIVE RATE COMPUTATION

Prospective rates are established annually for a universal rate year, July 1 through June 30. Rate setting shall be based on the most recent cost reports available by May 15. If a facility's rate is based upon a report which has not been audited or desk reviewed, the facility's rate is subject to revision after the cost report has been audited or desk reviewed.

- A. Allowable routine Nursing Facility cost is divided into two components: Nursing Services Cost and All Other Costs.

These components are defined at Section 102.

- B. Allowable cost for the Nursing Services Cost component shall be trended to the beginning of the universal rate year and indexed for the period covering the rate year based on an inflation factor obtained from the Data Resources, Incorporated (DRI) forecast table for Skilled Nursing Facilities.

- C. Allowable cost for the All Other Cost center, with the exception of the Capital Cost subcomponent, shall be trended and indexed in the same manner as Nursing Services Costs.

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D. The total Nursing Facility Cost for each cost category, after trending and indexing, shall be divided by total Certified Nursing Facility days in order to compute a per diem. A minimum occupancy limit of 90% of certified bed days available, or actual bed days used if greater, and a maximum occupancy limit of 98%, computed in the same manner, shall be used in computing the per diem.

E. The Nursing Services Cost per diem shall be converted to a nursing cost per case mix unit by dividing the per diem by the facility's average case mix weight.

1. The average case mix weight utilized for the initial rate setting on October 1, 1990 shall be based on the Case Mix Assessments performed by the PRO contractor during the period of July and August 1990.

2. The average case mix weight utilized for the annual July 1 rate setting on or after July 1, 1991, shall be an average of all quarterly Case Mix Weights for any assessment quarter for which any portion of that quarter falls within the period covered by the facility's Cost Reporting period which is used in that rate setting. If the cost reporting period used to set the July 1, 1991 does not correspond

with any assessment quarter, the average case mix weight for the July through August 1990 assessment period shall be utilized.

- F. The cost per case mix unit shall be arrayed in two arrays. One array shall be for the Urban Nursing Facilities and a second array shall be for the Rural Nursing Facilities. The maximum allowable cost in each array shall be set at 115% of the median cost in that array.
- G. The "Adjusted Nursing Services Cost Per Diem" shall be determined by multiplying the lesser of the facility's actual cost per case mix unit or the maximum allowable cost per case mix unit times the average case mix weight from the most recent assessment.
- H. The facility's latest average case mix weight shall be multiplied times the "maximum allowable cost per case mix unit" to determine the facility's "maximum allowable adjusted case mix per diem."
- I. If the facility's cost per case mix unit is equal to or less than 110% of the median cost per case mix unit in the facility's array, then the facility shall receive a "Cost Savings Incentive Per Diem for Nursing Services"

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equal to 10% of the difference between the facility's "Adjusted Nursing Services Cost Per Diem" and the facility's "maximum allowable adjusted Case Mix Per Diem" not to exceed \$1.50 per day.

- J. The facility's "Adjusted Nursing Services Cost Per Diem" shall be added to the facility's "Cost Savings Incentive Per Diem for Nursing Services" to determine the facility's "Nursing Services Per Diem Payment Rate."
- K. On a quarterly basis for quarters beginning October 1, January 1 and April 1 the steps outlined in 109G through 109J shall be repeated to compute a revised "Nursing Services Per Diem Payment Rate" for that quarter.
- L. For the annual rate setting effective July 1, the "All Other Cost Per Diems," as computed based on Section 109D, shall be separately arrayed for Urban and Rural facilities. The "Maximum All Other Cost Per Diem" shall be equal to 115% of the median "All Other Cost Per Diem" in the applicable array.